

Message Text

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ACTION ARA-10

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SUBJ: NORTHERN PERU COPPER CORPORATION SITUATION BECOMES
MORE COMPLICATED

REF: LIMA 7812

1. SUMMARY: NORTHERN PERU COPPER CORPORATION (NPCC) OFFICIALS CALLED ON AMBASSADOR OCTOBER 10. THEY REPORTED THAT, WHILE GOP HAS IMPROVED ITS OFFER, SITUATION HAS BECOME, IF ANYTHING, MORE COMPLICATED. WAY MUST BE FOUND TO DISMISS 650 WORKERS IF MINE IS TO BE ECONOMICALLY VIABLE WHILE AT SAME TIME MAINTAINING LABOR PEACE. SOME FORM OF ORGANIZATION TO RUN MINE MUST ALSO BE DEVELOPED SINCE GOP NOW TAKES POSITION THAT STATE OWNERSHIP OF MEDIUM-SIZED MINES IS NOT CONTEMPLATED UNDER "PLAN INCA". IN SHORT, ASARCO CONTINUES TO FACE SERIOUS DILEMMA IN ENDEAVORING TO RID ITSELF OF NPCC WITHOUT ADVERSELY AFFECTING ITS MUCH MORE IMPORTANT INTEREST IN THE SOUTHERN PERU COPPER CORPORATION. END SUMMARY

2. HANS STEIN OF NPCC, ACCOMPANIED BY WASHINGTON
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LAWYER PHILIP R. STANSBURY (COVINGTON AND BURLING),

CALLED ON AMBASSADOR TO INFORM HIM OF MOST RECENT DEVELOPMENTS REGARDING ASARCO'S EFFORT TO RID ITSELF OF NPCC. STEIN SAID HE HAD COME FROM MEETING THAT MORNING WITH DIRECTOR SUPERIOR OF MINES MINISTRY, ING. ANTONIO TORD, TO WHOM COMMISSION HAS NOW APPARENTLY REFERRED THE CASE. HE SAID THAT TORD HAD IMPROVED THE GOP'S OFFER TO ABOUT \$3.3 MILLION, BUT THAT THIS AMOUNT WOULD BE PAID OUT OVER EIGHT YEARS, WITHOUT INTEREST, PROBABLY MUCH OF IT IN THE FORM OF CONCENTRATES. AGAINST THIS, NPCC WOULD HAVE TO MAKE PAYMENTS OF BETWEEN \$5 TO \$6 MILLION IN SOCIAL AND RETIREMENT INDEMNIFICATION OBLIGATIONS TO WORKERS.

3. HOWEVER, MATTER IS COMPLICATED BY FACT THAT GOP DOES NOT ITSELF WISH TO ASSUME OWNERSHIP OF MINE, SINCE, AS TORD EXPLAINED, GOP OWNERSHIP OF MEDIUM-SIZED MINES IS NOT CONTEMPLATED IN THE "PLAN INCA". SOME OTHER FORM OF OWNERSHIP MUST BE DEVELOPED AND WORKING CAPITAL ACQUIRED. POSSIBILITY OF FORMING COMPANY OWNED BY MINERS TO WHICH THEY WOULD CONTRIBUTE THEIR INDEMNIFICATION PAYMENTS AS WORKING CAPITAL HAS BEEN SUGGESTED. HOWEVER, THIS PROVED HIGHLY UNPOPULAR, AND TWO UNION ADVOCATES OF PROPOSAL WHO HAD COME TO LIMA TO ARGUE FOR IT ARE STILL HERE AND AFRAID TO RETURN.

4. ADDITIONAL COMPLICATION IS THAT MINE CANNOT BE OPERATED SUCCESSFULLY WITHOUT REDUCTION OF 650 OF ITS APPROXIMATELY 1,800 MAN WORK FORCE. TORD HAS REQUESTED NPCC TO WRITE LETTER TO HIM STATING THAT IT CANNOT MEET THE PAYROLL AFTER OCTOBER 25. ON RECEIPT, TORD WILL ARRANGE TO CALL GENERAL ASSEMBLY OF UNION UNDER AUSPICES OF MINISTRY OF INTERIOR (IN OTHER WORDS, THERE WILL BE HEAVY POLICE PROTECTION) AT WHICH TIME WORKERS WILL BE INFORMED THAT THEY ARE ON THEIR OWN, BE ASKED TO ELECT DELEGATES WHO WILL NEGOTIATE WITH MINISTRY OF MINES OF FORM OF FUTURE OWNERSHIP OF MINE, AND BE TOLD THEY MUST MAKE 650 MAN REDUCTION IN THEIR NUMBER. (IT IS UNCLEAR WHO IS TO HAVE THE JOB OF MEETING WITH THE WORKERS. WHOEVER HE IS, HE WILL UNDOUBTEDLY NEED ALL THE POLICE PROTECTION PROVIDED.) AFTER NEGOTIATIONS WITH THE UNION ARE UNDERWAY, THE MINES MINISTRY WILL MEET AGAIN WITH NPCC FOR FINAL NEGOTIATION OF AMOUNT IT WILL RECEIVE.

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5. EMBASSY OFFICER ASKED WHY INDEMNIFICATION HAD TO BE PAID TO EACH INDIVIDUAL WORKER AND WHY IT MIGHT NOT BE POSSIBLE ONLY TO PAY OFF THOSE WHO CHOOSE TO LEAVE, THUS PERHAPS ACHIEVING SOME OF 650 MAN REDUCTION, WHILE MAKING LUMP SUM PAYMENT TO SUCCESSOR ORGANIZATION OF NPCC WHICH WOULD ASSUME OBLIGATION. THIS WAS SYSTEM EMPLOYED IN THE CASE OF CERRO AND GRACE DURING GREENE NEGOTIATION. LUMP SUM PAYMENT WOULD BE PARTIALLY OFFSET BY PAYMENT TO BE MADE BY GOP TO NPCC.

STEIN EXPLAINED THAT THIS COULD ONLY TAKE PLACE WERE THE GOP TO EXPROPRIATE NPCC, A PROCEDURE BOTH SIDES WISHED TO AVOID SINCE IT WOULD INVOLVE ADVERSE PUBLICITY AS THE GOP TRUMPED UP AN EXCUSE TO JUSTIFY THE EXPROPRIATION.

(NOTE: THIS WOULD NOT NECESSARILY HAVE TO BE THE CASE. W.R. GRACE ASSETS WERE TAKEN VERY QUIETLY AND POLITELY AT TIME OF GREENE AGREEMENT. THERE IS NO OSTENSIBLE REASON NPCC COULD NOT BE TAKEN IN THE SAME FASHION.)

6. STEIN WAS INCLINED TO BE CRITICAL OF GOP AS "TOO WEAK" TO IMPOSE REDUCTION OF 650 WORKERS. REQUIREMENT TO PROVIDE MINISTRY WITH LETTER SAYING NPCC CANNOT MEET PAYROLL HE REGARDED AS GOP EFFORT TO CAST NPCC AND ASARCO IN ROLE OF "BAD BOYS". STEIN SAID HE IS DISCOURAGED AS IT NOW APPEARS ALMOST IMPOSSIBLE THAT NEGOTIATIONS CAN TAKE PLACE IN A FRIENDLY ATMOSPHERE, AND THE LAST THING ASARCO WANTS S ANY KIND OF CONFRONTATION WHICH COULD DAMAGE ITS INTEREST IN THE FAR MORE IMPORTANT SOUTHERN PERU COPPER CORPORATION.

7. COMMENT: IN ONE RESPECT, STEIN IS RIGHT IN HIS ASSESSMENT THAT THE NEW MORALES BERMUDEZ GOVERNMENT IS NOT IN A POSITION TO TAKE ON ANOTHER MAJOR LABOR PROBLEM, PARTICULARLY WITH A STRONG APRA UNION. ON THE OTHER HAND, GOP CAN HARDLY BE FAULTED FOR WANTING AVOID BLAME FOR PROBLEM IT HAD NO HAND IN CREATING. GOP UNDOUBTEDLY REASONS THAT IT IS ASARCO WHICH MUST ACCEPT THE CONSEQUENCES OF ITS DECISION TO SHUT DOWN NPCC AND ASARCO WHICH SHOULD TAKE THE RESPONSIBILITY FOR TELLING A UNION WHICH HAS WORKED WITH NPCC TEN YEARS WITHOUT A DAY LOST DUE TO STRIKES THAT IT NOW NO LONGER REQUIRES THEIR SERVICES. ONE WAY OUT FOR ASARCO WOULD BE TO SWEETEN ITS OFFER BY PROVIDING INCENTIVES FOR THE 650 MEN TO LEAVE. ALTERNATIVELY, IT COULD SIMPLY CLOSE THE MINE, PAY OFF THE MEN, AND LEAVE WITH LIMITED OFFICIAL USE

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OUT NEGOTIATING ANY FORM OF PAYMENT WITH THE GOP. ALSO IT COULD LOOK FOR ANOTHER "BUYER", OTHER THAN THE GOP, WHICH MIGHT BE MORE OPTIMISTIC THAT NPCC COULD BE MADE A PAYING PROPOSITION. IN THE MEANTIME, ASARCO MAY HAVE TO RESIGN ITSELF TO FACT THAT DECISION TO CLOSE NPCC WILL COST SOMETHING, WHETHER IN CASH OR ADVERSE IMPACT ON ITS OTHER INTERESTS IN PERU. ASARCO WILL HAVE TO DECIDE WHICH COST, OR WHAT MIX OF THE TWO, WILL BE LEAST UNACCEPTABLE.

DEAN

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